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SUBJECT: ECONOMIC IMPACT OF RESIDENTIAL TOURISM COULD  
OUTPACE CANAL EXPANSION

This is part two of a two part series on Residential Tourism.  
Part II describes the economic and political implications  
for Panama. Part I introduced the industry and discussed the  
implications for the USG.

11. SUMMARY. The economic impact of the residential tourism  
industry on Panama is set to rival that of the Canal  
Expansion. Expatriates are having a profound impact on the  
local economies and communities in which they are settling.  
These part and full time residents have increased consumer  
demand and employment levels. Demonstrating the American  
tradition of service, Rotary Clubs, Lions Clubs and community  
groups are already active. Supported by a sophisticated PR  
machine, the residential tourism industry is organizing under  
the direction of Amcit Sam Taliaferro. Determined to protect  
their interests, property developers are beginning to flex  
their political muscle. They seek to be an added force for  
reforms to Panama's corporate, taxation and immigration laws  
which they allege are critical to maintaining the meteoric  
growth of this industry. They may also seek to influence  
Panama's electoral outcomes. END SUMMARY

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GREY GOLD  
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2.(U) Average incomes for retirees over 50 years old are up  
to 24% more than their 18 to 50 year old counterparts.  
Expatriate investors are shopping, hiring domestic help and  
starting small businesses. They are also engaging in grass  
roots diplomacy by forming charitable groups to buy text  
books, school lunches, and computers for their indigenous  
neighbors.

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WORKERS NEEDED  
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3.(U) Respected Panamanian economist Ruben Lachman estimates  
the contribution of the Residential Tourism industry to the  
Panamanian economy to be at least \$16 billion over the next  
eight years. GOP Ministry of Economy and Finance Director of  
Economic Policy, David Saied, identified more than 30  
commercial projects including hotels, eco-tourism resorts,  
office buildings and port developments underway. Taliaferro  
told Econoff that 170 towers were currently under  
construction in Panama City with 80 appropriate for the  
expatriate buyer. The labor demand for construction, domestic  
help and small businesses could cut unemployment in half,

driving it down to 5%. With a Canal Expansion on the horizon, the implications for a labor shortage are significant. For this reason, the industry is seeking immigration reform to address an existing shortage of skilled construction and hospitality industry labor and potential future shortage of any labor.

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MONEY TALKS  
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¶4. (SBU) Panama's residential tourism boom has attracted investors ranging from middle-class couples to big international players such as Mexican magnate Carlos Slim. Previously sleepy communities are being buzzed by helicopters and report sightings of yachts parked offshore as virgin coastline is marked for development. This has put pressure on the GOP to sort out Panama's arcane property titling scheme. Only 30% of Panama's territory is properly titled with several areas operating under Rights of Possession which does not offer the same level of protection as titled lands. Initial drafts of recently passed Law 2 substantially weakened the Rights of Possession of existing owners. Post was approached by several Amcit residents of Panama's remote Bocas del Toro area (close to the Costa Rican border) for assistance. After some dialogue and public outcry, the draft law was amended to recognize the rights of existing owners.

¶5. (U) Although the Panamanian government has not sought to control this booming industry, it remains a significant challenge for the underfunded public sector to service the increased demand for electricity, water, and sanitation as well as to engage in proactive urban planning to avoid congestion and haphazard growth. The industry is currently

proposing legislation which would make the developer responsible for the water, electricity, sewage and access roads. In return, the industry is seeking exemption from taxes on the property, services, and materials used in the development of a Residential Tourism complex, as well as a 20 years exemption on income tax.

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RESENTMENTS OF HAVE-NOTS COULD FUEL BACKLASH  
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¶6. (U) Panama's construction boom is not all from Residential Tourism. The Housing Ministry estimated that the housing deficit in Panama as of 2005 was 193,000 units. Architect Claudio Obregon told Econoff that these "homeless" are not without shelter but are living with family and friends or renting rather than becoming homeowners themselves. He stated that many of these Panamanians work in the informal economy, are not paying taxes and could not qualify for a mortgage. Tax incentives to the construction industry have prompted development across the spectrum and the banking industry is responding by making mortgages easier to obtain.

¶7. (U) Thus far, Panamanian reaction to the return of the gringos has been mixed. For the vast majority, this represents a tremendous economic opportunity. Landowning Panamanians are enjoying property value appreciation. For the lower socioeconomic Panamanian, new jobs are being created by Americans who are predisposed to pay over the legal minimum wage. It is possible that the Residential Tourism industry and the small businesses of Panama's newest residents will actually provide a missing element in Panamanian society - class mobility.

¶8. (U) There is an incipient backlash as expatriates settle into the best property Panama has to offer. This is mostly exhibited by local and provincial officials whose position on the food chain is being eroded by a more educated, foreign landowning class. However, without the expatriate demand and foreign investment, these sites would not have been physically and economically developed to the current extent. The disenfranchised, who could not constitute this demand

have not lost their existing homes, but have lost the possibility of living in the most beautiful locations their own country has to offer.

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KINGMAKING  
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19. (SBU) To minimize nationalistic backlash, the residential tourism industry is seeking a Panamanian as their public face. The economic impact of the industry is beginning to attract political attention. Industry sources have reported to Pol Counselor that high profile Panamanian politicians have begun to maneuver to get closer to this source of growing influence and cash. As the 2009 election approaches, that puts the industry in the position of potentially influencing Panamanian politics.

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